

The Development of China's Market Economy

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THE DEVELOPMENT OF CHINA'S MARKET ECONOMY

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In 1949 the Chinese Communist Party established the Peoples Republic of China and in approximately three years enforced a new democratic economy unifying the public and private sectors in a kind of mixed economy. In other words the government took control of the market economy.

The first Five Year Plan started in 1953 in which agriculture, the handicraft industry, and private businesses underwent socialist reconstruction, while there was a positive adoption of Soviet economic planning establishing a centralized economic planning system which denied the existence of a market economy.

By 1955 with the noticed deficiencies of the Soviet model, in April 1956 Mao Tse-tung announced the 'Ten Great Relationships Argument' stating that more authority should be given to regional governments and enterprises. This was the decentralization of authority planned economy. However, decentralization and planning were not introduced in their original aspect and prove unworkable. Regional decentralization brought about confusion while centralization caused rigidity. This continued for the next 20 years.

It should also be pointed out that the post-1958 Great Leap Forward and the Cultural Revolution etc. placed political questions before economic efficiency, so that until 1978 the Soviet economic model operated in a considerably modified form. Based on the Class Struggle Theory with politics as the first principle proved critical of the pursuit of economic efficiency under the traditional planned economy, and naturally by extension of the market economy.

In December 1978 at the Eleventh Central Committee Convention there was a change to an open reform policy in which economic reform was an important topic. At the same time it was not clear how reform would take place, but the most important opinions can be separated into the following three groups.

1) Small Reform It was stipulated that the ownership system should not be tampered with so that all peoples ownership (*state ownership*), and corporate and public ownership systems should continue. Although serious consideration should be given to the price law for commodity goods it should still reflect economic policy. Regional governments and enterprises should positively demonstrate greater authority. In other words there would be continued support of the basic framework of the

planned economy to which some adjustments would be added.

2) Medium Reform The public ownership system would continue, but private ownership should be recognized. General consumer goods should be entrusted to the market, but commodities, such as iron and steel, timber, machinery, and foodstuffs etc., that were important to the national economy and national life should remain in the planned economy. The factors of production (labor, capital, and land) were not to be looked upon as commodities. There should be an organized separation between politics and business (the separation of the government from business) to bring about independence for enterprises. From this arrangement the framework of the planned economy would be broken in half with the other half introduced to market principles.

3) Large Reform Not only did this recognize private ownership, in the form of corporations, all enterprises would be separated from the government, and then they would become limited companies. The factors of production as well as important commodities would be regarded as commercial goods for the training of commodities and factor goods markets. The government would control the economy through the passing of a guideline plan, public finance, and complete economic laws. This would not diverge from contemporary capitalism's mixed economy mechanism.

Naturally, at the start of the reform period there were no large reform advocates, the dispute was between small and medium reform, however, as reform advanced the argument was transferred to those between medium and large scale reform.

At the center of the reform arguments was the relationship between planning and the market, and into what situation the market would be created. The following are the five major variants.

①Market Denial This is related to the traditional socialist planned economy. Although serious consideration should be given to the price law, by legal deliberation economic administrative agencies fulfilled this need by deciding planned prices and production. This amounted to a denial of the market. Excluding the market from the deficiencies of the planned economy was proven by practice, and after the opening of the reform debate they asserted it was not necessary.

②Market Assistance This is affiliated to the now discredited Chen Yun's Caged Bird Economic Theory (in which there is free economic activity within the framework of socialist planning) such that it was thought that "the main body of the planned economy could be submitted to market adjustments". This would basically support the framework of a planned economy while general consumer goods would be entrusted to market adjustments.

③Market Fusion The brief that there could be a fusion between the plann-

ed economy and market control, in which it should not be decided which one should constitute the main constituent as conditions would determine the optimum tie-up. However, since it was unlikely that the actual tie-up would take place on a basis of parity, compromise expressions of market assistance and market dominance were used. The planned socialist goods economy and planned market fusion theory are such expressions.

④**Market Dominance** Economic planning was a necessity, but it was believed that the foundation should be the market economy. This was affiliated to the so-called economic model of “adjusting the state to the market, and the inducing of enterprises in the market”. The socialist market economy can still be seen in the market dominance theory. The micro economy would be entrusted to the market while it was clearly necessary for the government to undertake macro economic control and create the framework of the market economy.

⑤**Omnipotent Market** If entrusted to the market, economic efficiency would be delivered and there should be no contribution from the government. In its extreme form this meant to save government organizations, schools, hospitals, and the army; the role of companies should be money making. All of society should be motivated in the pursuit of money as mammonism swaggered forth. In government documents there is no expression of the omnipotent market, but extremes under consideration went this far.

China's economic reform has progressed for 16 years, gradually advancing from small to large scale reform and from a planned to a market economy, but it has followed a meandering course.

Economic reform was undertaken under the guidance of the Communist Party, and how the Chinese economic model was defined was an important indicator of the reform direction. This process is shown in the table. First, at the Eleventh Central Committee Convention the question was raised about serious consideration of economic laws, in particular the price law (the principle of the market), indicating a shedding of the political priority formula. However, at this stage it was stated that serious consideration would be given to the price law in the traditional planned economy.

In the 1982 Twelfth Party Congress the question raised was “the dominance of the planned economy, but subject to market adjustments”, a transformation from market denial to the planning dominance theory. The toleration of market adjustments was a step forward. The 1984 Twelfth Central Committee Convention raised the question of “the planned socialist goods economy”, that is to say the planned and market fusion theory. This indicated that impartial consideration would be given to the planned economy and market adjustment: This was yet another step forward.

The January 1987 fall of Hu Yaobang and the shift from the planning dominance advocates towards the market adjustment reform intention occurred with some criticism, but Zhao Ziyang's previous publications, under the support of Deng Xiaoping, proved successful. The Thirteenth Party Congress succeeded in raising the question of the "state adjusting to the market, and the market guiding industry". This realized another step forward in the market dominance theory over the planning and market fusion theory.

However, this period saw the flourishing of the omnipotent market theory and the rapid increase in inflation. Unit prices continued to rise and in September 1988 an adjustment policy was implemented. Then following the July 1989 Tiananmen Square Incident a more conservative direction was emphasized. At the 1989 the Thirteenth Central Committee Convention there was a change to the "fusion of the planned economy and market adjustment", and a retreat to the 1984 planned socialist goods economy argument.

Entering 1992 Deng Xiaoping called for a speeding up in reform as he judged that "by whichever means of planning and market...there are no differences in the characteristics of socialism and capitalism". In October of the same year at the Fourteenth Party Congress the question of the "socialist market economy" was raised, and again at the market dominance argument returned to the Thirteenth Party Congress.

However, "a socialist market economy" is the keyword, an abbreviation of the "state adjusting to the market, and the market guiding industry", moreover as part of a deeper recognition "market economy" is used as well as "market". Why was this? The market economy had achieved a high level in the development of a commercial goods economy, and so while looking at capitalist economic model until today such phrasing was avoided. Today such wording should be used meaning a contemporary capitalist country should have the positive adoption of a market economy mechanism, and the removal of ideological hindrances to economic reform.

Still, what contents does "the establishment of a socialist market economic system" hold? In the Fourteenth Party Congress Jiang Zemin's numerous publications foremost emphasis was the role of the market. "(1) The market under the macro economic control of the socialist state will carry out a basic role in the distribution of raw materials, and with economic activity based on the demands of the price law will enable adjustment to changes in the demand-supply relationship. (2) Through the function of price-taking and the competition mechanism the distribution of raw materials would be comparatively efficient, and by pressure and incentives on enterprises the excellent would prosper and the inferior be weeded-out. (3) Corresponding to various economic signals, market advantages would be revived

by corresponding to this comparative sensitivity, and so quickening the harmony between production and demand”.

At the same time he stated the following about the role of the government. “It is necessary to recognize the negative aspects and weak points of the market, reform must strengthen the macro economic control of the state's economy. Market operations must expand for the development of a vast unified national market, at the same time based on the demands of economic laws, it is necessary to use administrative means in economic policy, economic laws and planning guidance: guidance must be given for the healthy development of the market”.

This does not change too much of the mixed market mechanism of the Japanese economic mechanism and the Chinese formula socialist mixed economic mechanism. In November 1993 the Fourteenth Central Committee Convention outlined a blueprint for the development of a socialist market economy, and in 1994 reforms were undertaken to eradicate the numerous divisions in public finance, money circulation, and exchange rates.

The Chinese economy over the past 16 years has achieved an average 9.5% growth rate with an 8% inflation rate which generally indicates a good economic performance. In this transition from a planned to a market economy we should look at the differences with the former Soviet Union and Eastern European states, and at the characteristics of the Chinese model.

First, it is a gradualist model. Deng Xiaoping has stated that “the river strikes the stone bridge while flowing by”, so that there is always experimentation while one advances. Economics holds numerous contradictions and the current Chinese economy has many problems. The transition from a planned to a market economy has been difficult, it takes time to recognize this change and train entrepreneurs. This is a realization of the gradualist model.

Second, the Communist Party hold on leadership continues while it endeavors to manufacture new theories. There will be no denial of its leadership or Marxism. It will take time to reach a consensus on the market economic transformation, but the support of social stability and changed order will provide an advantageous environment. Still, on numerous occasions there will be advanced the omnipotent market theory as economic reform faces difficulties, but socialist ideology has been steadily harmonized with the East Asian model, the so-called government sponsored market economy.

Third, the selected path is from the development of a non-state owned economy to state owned economic reform. In rural communities the home production contract system is enforced, and has witnessed the development of agricultural production and local industries. Still, the results of individual enterprises, private enterprises, and outside investment has created a situation of state owned enterprise

reform. That is to say the sectors outside the planned economy have been turned by this development into the domain of the market economy, pressuring the planned sector and making the further development of the market economy unavoidable. Presently, factory production in state owned enterprises has declined from a pre-reform level of 77.6% (1978) to some 40% of total production.

Fourth, the opening to the outside has promoted the development of the domestic market economy. There has been a constant, and still unresolved, dispute between the positive-reform faction and the cautions-reform faction. Generally, in these circumstances the move to a market economy has been advanced by advice from the World Bank, and the introduction of experiences from Japan, Germany, and the Asian NIEs. The decision to return to GATT is another outside pressure that gives a huge stimulus to the development of a market economy.

Fifth, the "regional drive" has broken-up reform risks. The open reform policy moves along various avenues as a program which is advanced in every region. For example, the first actual opening was undertaken in Sung Zeng, then in the fourteen coastal cities, and next form spread to the entire coastal region, finally on entering the 1990s to the entire country. The development of the Chinese market economy has in general been propelled by this sequence and while the problems of regional disparities has widened it has effectively softened the risks. (In regard to points 3, 4, 5 see Wu Jinglian 「中国の市場経済」 *China's Market Economy*).

In regard to the development of the Chinese market economy the above is rather positive, however, numerous problems need solutions. The practical topics are reform of state owned enterprises, the establishment of a social welfare system, and the reform of the means of macro economic control. However, here I want to deal with three main ideological topics.

First, the non-adjustment of ideology. The planned and market economies and means to an end as neither socialism's nor capitalism's persuasive power has been broken. Socialist ideology also includes the means in its objective. If the planned and market economies are to become means, the former uses socialist techniques and the latter used capitalist techniques. This is Marxist ideology but is recognized generally. Further, for the realization of intermediate and advanced socialism, in which China is in the initial socialist phase, the adoption of capitalist techniques would develop productive capacity, but at the same time as a result of a socialist government it would constantly suppress the negative aspects of the market economy. For the realization of advance socialism it would be extremely refreshing. In the end in regard to contemporary capitalist countries it would represent a necessity of change to such capitalism.

Next, in the ownership problem there is a strong need to consider what should happen to national ownership system (state enterprises) as they would be

disrupted by state enterprise reform. Public ownership does not necessarily mean state ownership as it can take the shape of group and corporate ownership. In Marxism the state would wither away and it is probably correct to look at various forms of public ownership. Moreover, if this problem was not clear then the December, 1993 'Company Law' would not be working properly.

Third, the indications of an advanced socialist market economy vision. Presently, in the advanced Western countries they believe in expanding the activities of market principles through relief from over-regulation, while at the same time working to control market principles for environmental protection, raw material economy, and improved lifestyles etc. China has spent approximately 50 years in the initial phase and so it would be premature to write a vision for its intermediate and advanced phases, however, in socialist ideology it should be possible to indicate a rough vision. Even if in the current situation China is somewhat lacking it can supplement this problem by concentrating the wisdom of intellectuals in advanced countries. Socialism and communism ought to absorb the world knowledge of internationalism and globalism.